Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
Implementation of the Local Competition	)	
Provisions in the Telecommunications Act	)	CC Docket No. 96-98
of 1996	)	

COMMENTS OF THE ILLINOIS INDEPENDENT TELEPHONE ASSOCIATION

The Illinois Independent Telephone Association (IITA) is an association of thirty-four incumbent local exchange companies (ILEC) in the State of Illinois. In response to the Commission's Notice of Proposed Rulemaking (NPRM) in the above referenced docket, the IITA offers the following comments.

NPRM Paragraphs 30-33

The NPRM suggests strongly a preference for implementing "explicit national rules" for unbundling, interconnection, and other issues raised in the docket. It does, however, raise questions as to whether the circumstances of states might be different because of technological, geographic or demographic conditions that might call for different regulatory approaches. We are unsure of the degree of variations between the states on these issues, but are very aware that technological, geographic, and demographic conditions vary widely between ILECs. These differences are reflected in different operating procedures (computerized vs. manual), differences in response times (maintenance in attended urban central offices vs. unattended rural central offices), differences in customer density (urban areas vs. rural areas), and differences in technologies deployed (Nortel small DMS-10 switches vs. large DMS-100 switches). The Commission must be aware that if it proceeds with developing some type of national standards

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that such standards, particularly if they are to be explicit, must not be a single set of standards, but a series of standards that reflect these differences in operations. Adoption of a single standard, particularly one based on urban operations of the largest companies, will likely impose significantly increased operating costs on small, rural companies, a regulatory process totally inconsistent with publicized intent of the Act to reduce customer rates.

NPRM Paragraph 45

This paragraph seeks comment on whether states should be allowed to impose reciprocal requirements for interconnection on non-incumbent LECs. We would point out that under the environment being encouraged by the Act new exchange carriers may quickly be in the position in new developments, apartments, where they are the provider of the "bottleneck" loop facilities. If reciprocal requirements are not imposed on these carriers, a new set of "mini-monopolies" may develop in these areas.

NPRM Paragraphs 56-59

The IITA will leave it to others with more resources to propose specific points of interconnection that may be appropriate in various LEC networks. The Commission should keep in mind, however, that LEC networks vary widely between different sized ILECs in the type of construction and the operating systems associated with networks that may impact the technical feasibility of points of interconnection. In making its consideration, the Commission should also be aware that the current network has been built using technical considerations that did not contemplate interconnection at most points in the network. Adoption of too detailed requirements for interconnection may, in many cases, require significant additional investments in the existing network in order to provide an appropriate interconnection arrangement at that point. Network unbundling and interconnection points should be adopted at points in the network such as the switch main frame or concentrator cross connect frames where interconnection can be readily implemented.

NPRM Paragraphs 123-133

Of critical concern to members of the IITA will be the pricing of network elements and interconnection in a fashion that allows the companies to receive sufficient profit from the provision of these elements to continue to desire to invest in assets to provide service to end user customers and to other competitive providers. In rural areas the cost characteristics of service are such that it is unlikely that multiple networks can provide service as inexpensively as it can be provided through one network. Appropriately price network elements will encourage the use of that network by competitors while still providing adequate financial returns for the network provider.

The IITA recognizes that the pricing requirements established in Section 252 will cause pricing of network elements on a basis different from prior "rate-of-return" regulation. In pursuing appropriate methods for establishing prices, particularly on the basis of incremental cost, the Commission must be careful to formulate rules that fully recognize the incremental cost of relevant services. If incremental cost studies are implemented at the rate element level, incremental costs associated with providing multiple rate-elements, but not incremental to the specific rate element, may be excluded from studies. For example, under an access environment, the cost of preparing and rendering a Carrier Access Bill (CABS) may not be incremental to the end office or local transport switching elements specifically, or may be very minor to those individual elements, but may be significant to the provision of access service in general where the whole cost of the CABS bill is an incremental cost.

The Commission should also be cognizant of the fact that the level of incremental costs will vary between ILECs, particularly differing between large and small ILECs. While few would argue that the salary of the President of an RBOC is incremental to the provision of local switching, that may not be true of the President or General Manager of a small rural telephone company. In many of these companies (often with less than ten to twenty employees) this individual is the first-line supervisor or perhaps the "craft" person as well as the President and performs a variety of functions besides those of the head of the company. These may include such functions as reviewing maintenance information printed from the switch, entering changes in routing information such as new NXX's and new NPAs, and other functions which are incremental to the provision of local switching. Rules established regarding incremental costing should be flexible enough to take into consideration variations in operating conditions between companies.

Rules should also recognize that somewhere in the overall operation of the company, costs typically described as shared or common costs must be recovered from some revenue source if the company is to earn a reasonable profit. While the revenues of the ILECs continue to regulated by the FCC and the state commission's setting prices for virtually all their services, as is contemplated by the Act, rates established by these commission's must provide for some means of recovering these shared and common costs.

NPRM Paragraphs 139-143

The IITA has substantial concerns about proposals outlined in these paragraphs regarding using proxy costs instead of actual costs and establish price ceilings on prices for unbundled elements based on nationally-averaged costs. Our concerns arise from anticipation that such proxy costs and particularly price ceilings based on nationally-averaged costs would not reflect the cost characteristics of small rural telephone companies. There is an abundance of data available that demonstrates that there are significant cost differences between providing service in urban areas and rural areas. For example, the FCC's Monitoring Report contains annual data filed with NECA on the cost of loop plant (as defined in Part 36 of the FCC's rules). Average cost per loop for companies ranges from a low range of under $100 per loop to high cost areas that approach $1,000 per loop. Data derived from the data requests submitted to the FCC in CC Docket 80-286 in early 1995 showed average investment per subscriber for COE equipment ranging from $1,565.90 per subscriber (for study areas with average switch sizes of less than 100 lines) to $358.81 per subscriber (for study areas with average switch sizes of greater than 10,000 lines).[1] The costs for providing network elements and interconnection in these areas, even when measured on an incremental basis, will differ substantially from proxy costs based on large company cost structures and nationally-averaged costs which reflect primarily costs from large companies and urban areas.

If proxies are to be used, the development of such proxies must not be limited to a single set of numbers, but would need to provide a variety of proxy levels based on variations in operating conditions of individual companies. As is demonstrated in Southwestern Bell's recent reply comments in the Joint Board Universal Service NPRM, CC Docket 96-45, the Benchmark

[1] See Comments of GVNW Inc./Management in CC Docket #80-286 filed October 9, 1995, p.9.

Costing Model, which attempts to model loop and local switching costs does a poor job of accurately reflecting the actual cost of providing service in the modeled areas.[2] At this point in time there is certainly inadequate data before the Commission to adopt a specific proxy model with any degree of confidence

NPRM Paragraph 176

The IITA believes that it is clearly the intent of Congress in Section 251(c)(4)(B) of the Act that states should be able to prohibit the resale of residence lines to anyone other than residence customers. Similarly they could restrict the resale of lifeline or other services priced for specific customer groups to customers who qualify for the receipt of such services.

NPRM Paragraphs 180-182

Determination of avoided costs for the development of wholesale resale rates should be based on the specific cost characteristics of individual companies and not on proxies or national averages. ILECs activities associated with billing, marketing, collection, and similar activities vary widely, particularly among smaller companies and broad averages or percentages might significantly under- or over-state the actual costs that are avoided by a particular company in providing wholesale services. This is particularly true in smaller companies where volumes purchased by resellers may be small with little consequent savings in these costs.

NPRM Paragraphs 239-243

The IITA does not believe that bill and keep arrangements should be imposed on ILECs. It is unlikely that traffic in such situations will, in fact, be relatively balanced and further it is unlikely that the cost of such termination will be so close to zero as to be effectively a zero cost

[2] See Comments of Southwestern Bell Telephone Company in CC Docket 96-45, filed April 12, 1996, pp. 14-16.

item. While the rates adopted in states that have dealt with this issue, where rates have been adopted, are quite low (usually less than $0.01 per minute), they are well above a zero cost. This is likely to be particularly true for small companies where overall switching costs are higher because of the smaller exchange sizes.

NPRM Paragraphs 260 and 261

The IITA agrees with the FCC that the states have the sole responsibility for determining whether exemptions for rural companies should be granted and whether suspension or modifications under Section 251(F)(2) should be granted. We do not see any need for the FCC to establish standards regarding what constitutes a "bona fide" request. We believe that the states can make such determinations with relative ease and without putting undo burdens on requesting carriers.

NPRM Paragraph 263

The IITA notes that one of the primary means that the FCC has of assuring infrastructure development, particularly in rural areas, is to create an environment where those investing in such infrastructure have a reasonable assurance of obtaining and adequate return on that infrastructure. In that regard, pricing rules established by the FCC for unbundled elements and interconnection provided by ILECs need to provide sufficient revenues to make such future investments profitable and attractive.

Respectfully Submitted,

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